

Message Text

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ACTION EUR-12

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USOECD

E.O. 11652: N/A
TAGS: EGEN, PFOR, EFIN, SI
SUBJECTGC SPAIN FREEZES SOME PRICES, TAKES OTHER ECONOMIC MEASURES

1. SUMMARY: A ROYAL DECREE ANNOUNCED TODAY ESTABLISHES
GOVERNMENT CONTROL OF PRICE INCREASES FROM THE LEVELS
EXISTING BEFORE THE JULY 12 PESETA DEVALUATION.
THE GOVERNMENT IS TONIGHT EXPECTED TO ANNOUNCE GASOLINE
PRICE HIKES, WITH OTHER ENERGY INCREASES TO FOLLOW.
A RANKING OFFICIAL HAS ALSO TOLD US THAT THE GOVERNMENT PLANS A
SHARP REDUCTION IN THE BROAD MONEY (M3) GROWTH RATE
AND AN INCREASE IN THE BANK OF SPAIN'S LENDING RATE TO BANKS.
END SUMMARY.

2. SPAIN ALREADY
HAS OFFICIALLY-FIXED OR CONTROLLED
PRICE ON A RANGE OF BASIC COMMODITIES (COFFEE,
BREAD, GASOLINE, RENT, ETC.) A NEW ROYAL DECREE,
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PUBLISHED TODAY IN THE OFFICIAL BULLETIN, BANS
UNJUSTIFIED PRICE INCREASES FOR ALL GOODS AND SERVICES
WHICH HAD PREVIOUSLY NOT BEEN SUBJECT TO PRICE CONTROLS.
THE DECREE LIMITS ALL PRICE INCREASES IN THE PERIOD
JULY 12 (DATE OF 25 PERCENT PESETA DEVALUATION) - SEPTEMBER 30,
EXCEPT TO THE EXTENT THAT COSTS CAN BE PROVEN TO HAVE
RISEN IN THE SAME PERIOD.

3. ENERGY PRICES, WHICH ARE IN THE GROUP OF PRICES ALREADY FIXED BY THE GOVERNMENT, ARE EXPECTED TO RISE SIGNIFICANTLY. IT IS VIRTUALLY CERTAIN THAT THE GOVERNMENT WILL TONIGHT RAISE PRICE THE THREE GRADES OF GASOLINE BY 17.6 TO 23.5 PERCENT. PRICES FOR ELECTRICITY, FUEL-OIL AND OTHER NON-GASOLINE ENERGY MAY OR MAY NOT BE RAISED TONIGHT, BUT IN ANY CASE ARE EXPECTED TO INCREASE SOON.

4. IN ADDITION TO THESE MEASURES, CREDIT TO THE PRIVATE SECTOR MAY SOON BECOME MORE EXPENSIVE AND LESS ABUNDANT. THE NEW ECONOMIC'S MINISTRY, STATE SECRETARY, AND BANKING SOURCES HERE, HAVE TOLD US THAT THE GOVERNMENT WILL REDUCE SHARPLY THE BROAD MONEY (M3) GROWTH TARGET. SINCE LAST SEPTEMBER THE GOS HAS TARGETED A 23 PERCENT M3 GROWTH RATE. THE SPANISH OFFICIAL TOLD US THAT THE VERY IMPORTANT INTEREST RATE FOR SHORT-TERM BANK OF SPAIN LOANS TO PRIVATE BANKS ("GOTA-A-GOTA" LOANS), WILL INCREASE FROM ITS CURRENT SEVEN PERCENT TO A RATE SOMEWHAT MORE IN LINE WITH THE PRESENT 25 PERCENT INFLATION RATE. A LOWER RATE OF MONEY EXPANSION IS VIEWED AS NECESSARY BY ALMOST ALL OBSERVERS, ALTHOUGH A DRASTIC DROP (SAY TO 15-17 PERCENT) WILL BE VIEWED BY SOME AS EXCESSIVE.

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HIGHER GOTA-A-GOTA LOAN RATES WILL SERVE PRIMARILY TO DISTRIBUTE LOANS MORE EFFICIENTLY TO THOSE WHO REALLY NEED THEM. STABLER

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